

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Ingham County Medical Care Facility	County Ingham
Fiscal Year End 12/31/06	Opinion Date April 27, 2007	Date Audit Report Submitted to State May 7, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

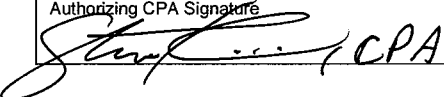
SE 2

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Steven R. Kirinovic, CPA	License Number 1101022020	

**Ingham County Medical Care Facility
Okemos, Michigan**

FINANCIAL STATEMENTS

December 31, 2006

Ingham County Medical Care Facility

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Ingham County Medical Care Facility
Okemos, Michigan

We have audited the component unit financial statements of the Ingham County Medical Care Facility as of and for the year ended December 31, 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Medical Care Facility's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Ingham County Medical Care Facility as of December 31, 2006, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Ingham County Medical Care Facility has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year ended. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming an opinion on the component unit financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 27, 2007

BASIC FINANCIAL STATEMENTS

Ingham County Medical Care Facility

STATEMENT OF NET ASSETS

December 31, 2006

ASSETS

Current assets

Cash and cash equivalents	\$ 3,447,362
Accrued interest receivable	55,647
Residents' accounts receivable - net	2,448,033
Prepays	41,723
Inventory	15,120

Total current assets 6,007,885

Noncurrent assets

Restricted cash and cash equivalents	6,115,523
Capital assets not being depreciated	132,832
Capital assets, net of accumulated depreciation	7,021,281

Total noncurrent assets 13,269,636

TOTAL ASSETS 19,277,521

LIABILITIES

Current liabilities

Accounts payable	630,205
Accrued wages	411,650
Accrued compensated absences	294,511
Other accrued liabilities	148,962
Current portion of Advance from County	75,250

Total current liabilities 1,560,578

Noncurrent liabilities

Resident's trust payable	15,891
Worker's compensation claims liability	75,000
Advance from County	712,033

Total noncurrent liabilities 802,924

TOTAL LIABILITIES 2,363,502

NET ASSETS

Invested in capital assets	7,154,113
Restricted	6,115,523
Unrestricted	3,644,383

TOTAL NET ASSETS \$ 16,914,019

See accompanying notes to financial statements.

Ingham County Medical Care Facility

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2006

OPERATING REVENUES	
Net resident revenues	\$ 15,857,775
Other income	11,191
	<hr/>
TOTAL OPERATING REVENUES	15,868,966
OPERATING EXPENSES	
Wages	8,457,882
Fringe benefits	2,241,987
Resident's medical care	2,337,910
Administration and admissions	416,207
Maintenance	511,456
Laundry and housekeeping	92,718
Supplies	449,504
Activities	61,912
Training and education	22,480
Depreciation	461,657
	<hr/>
TOTAL OPERATING EXPENSES	15,053,713
	<hr/>
OPERATING INCOME	815,253
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	391,863
Quality assurance supplement	1,893,435
Quality assurance expense	(1,051,273)
Interest expense	(8,618)
Maintenance of effort	(41,353)
	<hr/>
TOTAL NONOPERATING REVENUES	1,184,054
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CHANGE IN NET ASSETS	1,999,307
Net assets, beginning of year	14,914,712
	<hr/>
Net assets, end of year	\$ 16,914,019
	<hr/>

See accompanying notes to financial statements.

Ingham County Medical Care Facility

STATEMENT OF CASH FLOWS

Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 14,443,048
Cash paid to suppliers	(6,156,435)
Cash paid to employees	<u>(8,295,711)</u>

NET CASH (USED) BY OPERATING ACTIVITIES (9,098)

CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES

Quality assurance supplement	1,893,435
Quality assurance expense	(1,051,273)
Maintenance of effort	<u>(41,353)</u>

NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES 800,809

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital acquisitions	(197,978)
Principal payments on Advance from County	(74,505)
Interest expense	<u>(8,618)</u>

NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES (281,101)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest revenue	<u>391,863</u>
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NET INCREASE IN CASH AND
CASH EQUIVALENTS DURING YEAR 902,473

Cash and cash equivalents, beginning of year 8,716,059

Cash and cash equivalents, end of year \$ 9,618,532

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income	\$ 815,253
Adjustments to reconcile operating income to net cash (used) by operating activities	
Depreciation	461,657
(Increase) in receivables	(1,425,918)
Decrease in prepaids	596
(Increase) in inventory	(4,899)
Increase in accounts payable	91,978
Increase in accrued wages	107,291
Increase in accrued compensated absences	39,820
Increase in other accrued liabilities	51,933
(Decrease) in due to other funds	(160,161)
Increase in worker's compensation claims	15,060
(Decrease) in resident's trust payable	<u>(1,708)</u>

NET CASH (USED) BY OPERATING ACTIVITIES \$ (9,098)

See accompanying notes to financial statements.

Ingham County Medical Care Facility
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ingham County Medical Care Facility (The Medical Care Facility) is considered a component unit of Ingham County, Michigan for financial accounting and reporting purposes.

A three-member board is responsible for establishing policies and oversight. The County appoints two board members and the State of Michigan appoints a third. An administrator manages the daily operations of the Medical Care Facility.

The accounting policies of the Ingham County Medical Care Facility conform to accounting principles generally accepted in the United States of America as applicable to governmental units. In accordance with GASB Statement 20, the Medical Care Facility has elected not to apply the FASB Statements and interpretations issued after November 30, 1989, to its financial statements. The following is a summary of the significant policies:

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Ingham County Medical Care Facility. The Medical Care Facility is considered a "component unit" of the County of Ingham, Michigan's governmental operation. As a result, industry standards require the County to include the financial activities of the Medical Care Facility in the County's Annual Financial Report. The Annual Financial Report of Ingham County, Michigan is available for public inspection at the Ingham County Courthouse.

2. Basis of Presentation

The accounts of the Medical Care Facility are organized on the basis of a fund, which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Medical Care Facility resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Medical Care Facility applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The Medical Care Facility has elected not to follow FASB pronouncements issued after November 30, 1989 to its business-type activities and enterprise fund.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., net total assets) is segregated into invested in capital (net of related debt) and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Ingham County Medical Care Facility
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

5. Cash and Cash Equivalents

The Medical Care Facility cash accounts consist of various checking accounts, along with deposits in the Ingham County Treasurer's cash management pool. The balances in the cash accounts are available to meet current operating requirements.

6. Restricted Cash

Restricted cash consists of money received by the Medical Care Facility for capital acquisitions/improvements, donations, and patient trust accounts.

7. Residents' Accounts Receivable

Residents' accounts receivable are shown net of Medicaid advance payments and an allowance for uncollectible accounts. Approximately 78% of patient revenues are generated from services to patients covered by Medicare and Medicaid. Retroactive adjustments to the per diem rates established under those programs and by third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

8. Inventory and Prepaids

Inventory is stated at cost on a first in/first out basis. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaids.

9. Capital Assets

Capital assets, which include buildings and equipment, are capitalized at total acquisition cost, provided such cost exceeds \$5,000 and the expected useful life of the asset is more than two years. Donated property and equipment are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend their lives are charged to expense when incurred. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Buildings and improvements	5 - 40 years
Equipment	5 - 20 years

Ingham County Medical Care Facility
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

10. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

11. Accrued Compensated Absences

Ingham County Medical Care Facility employees are granted paid time off and sick leave in varying amounts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount has been recorded as a current liability.

12. Residents' Trust Liability

The Michigan Department of Treasury requires facilities to administer and account for certain resident monies. Accordingly, the residents' trust liability recorded in the statement of net assets represents those patient monies on deposit with the Facility at year end.

13. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the Medical Care Facility is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Ingham County Medical Care Facility
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE B: CASH AND CASH EQUIVALENTS- CONTINUED

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

The Medical Care Facility's bank deposits at December 31, 2006, are composed of the following:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking	<u>\$ 26,291</u>	<u>\$ 265,116</u>

Bank deposits of the Medical Care Facility are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Medical Care Facility. As of December 31, 2006, the Medical Care Facility's accounts were insured by the FDIC for \$170,458 and the amount of \$94,658 was uninsured and uncollateralized.

The cash and cash equivalents caption on the balance sheet includes \$1,150 in imprest cash and \$9,535,444 in cash and cash equivalents that are on deposit with the Ingham County Treasurer. The cash and cash equivalents on deposit with the Ingham County Treasurer are part of the County pooled cash and investments. As a result, the insured and uninsured amounts related to these amounts cannot be determined.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of December 31, 2006, the Medical Care Facility did not have any investments that would be subject to rating.

Interest rate risk

The Medical Care Facility will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Medical Care Facility's cash requirements.

Concentration of credit risk

The Medical Care Facility will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Medical Care Facility's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Ingham County Medical Care Facility
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Custodial credit risk

The Medical Care Facility will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Medical Care Facility will do business in accordance with Board approved policy.

The following summarizes the categorization of these amounts as of December 31, 2006:

Cash and cash equivalents	\$ 3,447,362
Cash and cash equivalents - restricted	<u>6,115,523</u>
	<u>\$ 9,562,885</u>

The following summarizes the restricted cash and cash equivalents as of December 31, 2006:

	<u>Residents'</u> <u>Trust</u>	<u>Funded</u> <u>Depreciation</u>	<u>Total</u>
Cash and cash equivalents	<u>\$ 15,891</u>	<u>\$ 6,099,632</u>	<u>\$ 6,115,523</u>

NOTE C: RESIDENTS' ACCOUNTS RECEIVABLE

The details of the residents' accounts receivable are as follows at December 31, 2006:

Residents' receivables	\$ 2,814,533
Deduct:	
Allowances for uncollectible accounts	(116,500)
Medicaid interim payments	<u>(250,000)</u>
Residents' receivables, net	<u>\$ 2,448,033</u>

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006, was as follows:

	<u>Balance</u> <u>Jan. 1, 2006</u>	<u>Additions/</u> <u>Reclassifications</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>Dec. 31, 2006</u>
Capital assets not being depreciated:				
Land	\$ 132,832	\$ -	\$ -	\$ 132,832
Construction in progress	<u>3,434,407</u>	<u>192,766</u>	<u>(3,627,173)</u>	<u>-</u>
Subtotal	3,567,239	192,766	(3,627,173)	132,832

Ingham County Medical Care Facility
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE D: CAPITAL ASSETS - CONTINUED

	<u>Balance Jan. 1, 2006</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance Dec. 31, 2006</u>
Capital assets not being depreciated:				
Land improvements	\$ 287,661	\$ 5,212	\$(31,045)	\$ 261,828
Buildings and improvements	9,668,775	3,627,173	(30,664)	13,265,284
Equipment	<u>617,339</u>	<u>-</u>	<u>(76,436)</u>	<u>540,903</u>
Subtotal	10,573,775	3,632,385	(138,145)	14,068,015
Less accumulated depreciation for:				
Land improvements	(230,170)	(11,308)	31,045	(210,433)
Buildings and improvements	(6,077,418)	(412,498)	30,664	(6,459,252)
Equipment	<u>(415,634)</u>	<u>(37,851)</u>	<u>76,436</u>	<u>(377,049)</u>
Subtotal	<u>(6,723,222)</u>	<u>(461,657)</u>	<u>138,145</u>	<u>(7,046,734)</u>
Net capital assets being depreciated	<u>3,850,553</u>	<u>3,170,728</u>	<u>-0-</u>	<u>7,021,281</u>
Net capital assets	<u>\$ 7,417,792</u>	<u>\$ 3,363,494</u>	<u>\$(3,627,173)</u>	<u>\$ 7,154,113</u>

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Medical Care Facility for the year ended December 31, 2006:

	<u>Balance Jan. 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2006</u>	<u>Amounts due within one year</u>
Advance from County	\$ 861,788	\$ -	\$ 74,505	\$ 787,283	\$ 75,250
Accumulated compensated absences	<u>254,691</u>	<u>542,936</u>	<u>503,116</u>	<u>294,511</u>	<u>294,511</u>
	<u>\$ 1,116,479</u>	<u>\$ 542,936</u>	<u>\$ 577,921</u>	<u>\$ 1,081,794</u>	<u>\$ 369,761</u>

Significant details regarding the outstanding long-term debt (including current portion) are presented below:

Advance from County

In 1996, the Medical Care Facility borrowed \$1.5 million from the County for a capital expansion and renovation project. The loan agreement provides for repayment of the advance over twenty years with interest at one percent (1%) per annum on the outstanding principal balance.

Ingham County Medical Care Facility
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE E: LONG-TERM DEBT - CONTINUED

Repayment requirements to maturity are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 75,250	\$ 7,873
2008	76,003	7,120
2009	76,763	6,360
2010	77,530	5,593
2011	78,304	4,817
2012-2016	<u>403,433</u>	<u>12,184</u>
	<u>\$ 787,283</u>	<u>\$ 43,947</u>

Accumulated Compensated Absences

Employees of the Ingham County Medical Care Facility are granted sick and vacation leave in varying amounts based on length of service. Upon termination of employment, employees are paid accumulated sick and vacation at full current rate of pay.

Accumulated sick and vacation leave represent a liability to the Facility which is presented as a current liability. Payments to employees for sick and vacation leave are recorded as expenses when they are used and payments are actually made to the employees.

At December 31, 2006, the Facility's total liability for vacation and sick pay amounted to \$294,511 which has been classified as a current liability

NOTE F: RISK MANAGEMENT

Through the County, the Medical Care Facility is self-insured for workers' compensation claims up to \$300,000 per occurrence and insured for the amount of claims in excess of that limitation up to a maximum of \$5 million.

The change in workers' compensation liability amount for the year ended December 31, 2006 is as follows:

	<u>2006</u>
Claims liability at beginning of year	\$ 59,940
Claims and changes in estimates	216,966
Claim payments	<u>(201,936)</u>
Claims liability at end of year	<u>\$ 75,000</u>

The Medical Care Facility, as part of Ingham County, is protected from various types of losses. Through the County, the Facility participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property coverage. Further information and disclosures are described in the note captioned "Risk Management" within the County's Annual Financial Report.

Ingham County Medical Care Facility
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE G: MAINTENANCE OF EFFORT

Each month the Medical Care Facility is billed by the State of Michigan for maintenance of effort in an amount equal to a specified rate times the number of Medicaid patient days approved by the State for that month. For the year ended December 31, 2006, the Facility's Medicaid Maintenance of Effort expense amounted to \$41,353.

NOTE H: CONTINGENT LIABILITIES

Amounts received or receivable from third-party payors, in particular Medicare and Medicaid, are subject to audit and adjustment by various intermediaries. The amount, if any, of such adjustments cannot be determined at this time although the Medical Care Facility expects such amounts, if any, to be immaterial.

In 1978, the Medical Care Facility received a federal grant under the Hill-Burton Act to help finance construction of the facility. A provision of the grant is that the facility provide free of charge care to qualifying individuals in a total cumulative amount equal to the original grant amount adjusted for inflation. Through December 31, 2006, the Medical Care Facility has not yet satisfied the charitable care obligations of the Hill-Burton Act.

NOTE I: FLEXIBLE BENEFITS PLAN

In July 1991, the Medical Care Facility implemented a flexible benefit cafeteria plan established under Section 125 of the Internal Revenue Code. The plans are available to all full-time or part-time employees who work at least 20 hours per week.

The plan permits employees, who must pay a portion of the health insurance, to do so through a pretax compensation reduction. The plan also permits employees to reduce their compensation and apply it to medical or dependent care expenses.

The plan is administered by Group Benefit Services.

NOTE J: RETIREMENT PLAN

The Medical Care Facility is included within the County's retirement plan and the County participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple employer public retirement system. MERS is authorized and operated under State law, Act 135 of the Public Acts of 1945, as amended. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan, 48917, or may be reviewed at the Ingham County Office Building, 121 East Maple Street, Mason, Michigan, 48854.

The annual actuarial report for the County is dated each year for the period December 31 and has no separate data for the Ingham County Medical Care Facility. Accordingly, no separate actuarial data is included in these financial statements. The annual pension contribution for the Ingham County Medical Care Facility for the fiscal year ended December 31, 2006, was \$527,031.

Further information regarding the Ingham County plan including detailed trend information is presented in the County's 2006 comprehensive annual financial report, which is available to the public at the County's administrative offices.

Ingham County Medical Care Facility
NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE K: RESTRICTED NET ASSETS

Restrictions of net assets shown in the financial statements indicate that restrictions imposed by legal requirements or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2006:

Restricted for	
Residents' Trust Activities	\$ 15,891
Funded Depreciation	<u>6,099,632</u>
	<u>\$ 6,115,523</u>

OTHER SUPPLEMENTARY INFORMATION

Ingham County Medical Care Facility

SCHEDULE OF NET RESIDENT REVENUES

Year Ended December 31, 2006

DAILY ROOM SERVICES

Medicaid	\$ 8,079,044
Medicare	3,661,762
Other	<u>2,595,212</u>

Total daily room services	14,336,018
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ANCILLARY SERVICES

Pharmacy and IV	658,285
Physical therapy	877,543
Occupational therapy	912,611
Speech therapy	207,879
Medical supplies	<u>96,708</u>

Total ancillary services	<u>2,753,026</u>
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Total resident revenues	17,089,044
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Less:

Provision for contractual discounts	<u>(1,231,269)</u>
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Net resident revenues	<u><u>\$ 15,857,775</u></u>
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Ingham County Medical Care Facility

SCHEDULE OF OPERATING EXPENSES

Year Ended December 31, 2006

	Salaries	Other	Total
Administration	\$ 362,296	\$ 319,201	\$ 681,497
Human resources	126,610	76,085	202,695
Maintenance	124,103	511,456	635,559
Laundry	214,021	50,043	264,064
Housekeeping	338,144	42,675	380,819
Dietary	735,715	446,487	1,182,202
Central supply	39,842	1,367	41,209
Pharmacy	-	498,980	498,980
Nursing	5,618,660	725,194	6,343,854
Physical therapy	-	490,740	490,740
Occupational therapy	-	482,044	482,044
Dementia	53,200	1,605	54,805
Psychosocial services	314,922	17,645	332,567
Admissions and marketing	348,136	65,649	413,785
Vehicles	-	1,189	1,189
Physician services	-	33,600	33,600
Nurse aide training	140,471	21,757	162,228
In-service education	41,762	723	42,485
Speech therapy	-	105,747	105,747
Fringe benefits	-	2,241,987	2,241,987
Depreciation	-	461,657	461,657
Total operating expenses	<u>\$ 8,457,882</u>	<u>\$ 6,595,831</u>	<u>\$ 15,053,713</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

REPORT ON INTERNAL CONTROL

To the Board of Directors
Ingham County Medical Care Facility
Okemos, Michigan

In planning and performing our audit of the component unit financial statements of the Ingham County Medical Care Facility as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Ingham County Medical Care Facility's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Facility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

ADMINISTRATIVE POLICIES AND PROCEDURES

Based on our discussions with management and review of administrative policies and procedures, we noted that the Facility has not formally adopted written procedures and policies for certain areas of operation. Documenting specific policies and procedures allows employees to have a clear understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we suggest that the Facility develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Accounting policies and procedures manual - We recommend the Facility formally document any accounting procedures that are currently in place and supplement this with any policies that may be required to support those procedures. These policies and procedures should include cash receipt and disbursement procedures, payroll procedures, criteria for establishing a fund, specific activities to be accounted for in each fund, any closing procedures necessary for the preparation of monthly/annual financial statements, purchasing, and obtaining competitive bids, etc.
- b. Fraud prevention policy - A policy on fraud prevention should define the scope of the policy and include a definition of actions constituting fraud and the appropriate procedures to follow when reporting fraud or suspicions of fraud.

ADMINISTRATIVE POLICIES AND PROCEDURES - CONTINUED

- c. Disaster recovery plan - We recommend the Facility adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Facility and detail how the Facility would continue to operate in the absence of those critical areas of operation.
- d. Record retention policies - We recommend the Facility adopt record retention policies to assure that documentation is retained for an appropriate length of time for audit purposes and for purposes of satisfying any potential Freedom of Information Act requests.

PAYROLL PROCESS

During our testing of the payroll process it was noted that four (4) out of ten (10) time clock reports were not reviewed or approved by a manager or supervisor. The Facility's policy requires that all time clock reports be reviewed and signed off by a manager or supervisor prior to payment.

We recommend that management review and approve all time clock reports prior to submitting the reports for payment. The review and approval should be indicated on the face of the report.

JOURNAL ENTRY PROCESS

Based on our discussions with management, it was noted that the Controller can enter journal entries into the automated general ledger without any other supervisory review or approval.

We recommend that, since the Controller is involved with a majority of the other accounting functions (disbursing, reconciliations, general ledger, etc.), another member of management review and approve all journal entries prior to posting in the general ledger. The review and approval should be indicated on the journal entry.

This report is intended solely for the use of management and the Board Members of Ingham County Medical Care Facility, others within the organization, and applicable departments of the Local, State, and Federal governments and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 27, 2007